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C O N F I D E N T I A L SECTION 01 OF 03 BRATISLAVA 000917

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [LO](#) [RS](#)

SUBJECT: SLOVAKS KEEP OPTIONS OPEN ON TRANSPETROL SALE

REF: A. BRATISLAVA 911

[1](#)B. BRATISLAVA 870 AND PREVIOUS

Classified By: CDA Lawrence R. Silverman for reasons 1.4 b) and d)

[1](#)1. (C) Summary - The Slovak government replaced the two Transpetrol board members and five supervisory board members, who were appointed by the previous administration, with its own nominees at the November 21 shareholders meetings. No other changes took place at the meeting. Minister Jahnatek had originally hoped to use the meeting to effect the changes that were agreed to in Moscow two weeks ago. In negotiations leading up to the shareholders agreement, Yukos Finance representative Sergei Shmelkov claimed to be unaware of the Moscow agreement and said he would only change the GOS board members if Jahnatek agreed to change the Yukos board members.

Shmelkov was not willing to provide the Slovaks with management control or formally commit to future pipeline developments. The GOS prevailed by threatening to cancel the board meeting altogether. Although Shmelkov did not replace the Yukos board members he was able to establish a record, however tenuous, that he is the legitimate representative of the Yukos stake in Transpetrol. The GOS is pleased with the overall result, and especially by the fact that Jahnatek stood up to Shmelkov's pressure, but does not know what Shmelkov's intransigence means for finalizing a deal the would meet the Slovak objectives. The GOS remains focused on the carrying through with the Moscow plan, but recognizes that many challenges remain. End Summary.

REBGUN WORKING FROM A DIFFERENT SCRIPT

[1](#)2. (C) Econoffs met with Economy State Secretary Peter Ziga on the evening of November 20th to discuss the Transpetrol shareholders meeting that had taken place earlier in the day, as well as the negotiations with Yukos Finance representative Sergei Shmelkov in advance of the meeting. Economy Minister Lubomir Jahnatek met with Shmelkov, who was appointed by Yukos Oil Receiver Eduard Rebgun, on Thursday, November 16, for technical discussions on the implementation of the broad agreement outlined in Moscow two weeks ago (reftel A.) Negotiations were postponed on November 17 by Jahnatek so that he could attend to a mining disaster in central Slovakia, and were resumed on the morning of November 20 before the start of the Transpetrol shareholders meeting.

[1](#)3. (C) Shmelkov began the negotiations by claiming that he was not aware of the broad agreement reached between Slovak President Gasparovic and Russian President Putin whereby the GOS would approve the sale of the 49 percent Transpetrol stake to a Russian company in exchange for the Slovaks regaining management control and a commitment by the Russian side to develop the pipeline and allow for diversity of supply. Shmelkov argued that he could not open the

shareholders agreement or the articles of association until Rebgun had further secured control of Yukos Finance and its assets, which he did not expect to take place until February or March, 2007. Shmelkov further insisted that he would approve the changes to the Slovak representatives on the Transpetrol board only if the GOS agreed to change the Yukos board members, who were appointed by the former Yukos directors. Recognizing that such a move would undermine the GOS's negotiating position, Jahnatek refused to meet Shmelkov's request and told him that the Slovaks would cancel the shareholder's meeting by not showing up. Jahnatek cautioned that this would be the first time in Transpetrol's history where the investor refused to approve an administrative change requested by the GOS.

14. (C) After placing a call to Moscow, Shmelkov gave in to Jahnatek's demand on the condition that the GOS would recognize Shmelkov as the official representative of the Yukos Finance stake at the shareholders meeting. (Note: Ziga stressed that the GOS had no other choice but to recognize Shmelkov since Yukos Finance is listed in the Slovak Central Securities Registrar and Shmelkov is officially listed as a director of Yukos Finance in the Netherlands.) Rebgun is battling to secure his control of Yukos Finance and its assets in the Netherlands, and likely sees a benefit to having his representatives participate in the Transpetrol shareholders meeting.

STRAIGHTFORWARD BOARD MEETING

15. (C) As expected two lawyers representing Yukos International came to the shareholders meeting and claimed to represent the voting interest for Yukos Finance. The board

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recognized Shmelkov as the legal representative of the 49 percent stake, but made a notation in the minutes that Yukos International disputed this claim. Ziga noted that in a side conversation, Yukos International representatives informed him that they were not opposed to a deal with Gazprom or any other company, but wanted to ensure that Yukos Finance received a fair price and that all funds from the sale go to the Dutch baliff. Once the shareholders were established, the meeting lasted only a few minutes. The new board members are Sergei Zapotocky and Vladimir Balanik. The appointees for the supervisory board include Dusan Mach, Mikulas Rakovsky, Julius Rezes, Ladislav Haspel and Viliam Krizan. (Comment: With the exception of Rakovsky, who represents Ukrtransnafta in Slovakia and previously worked for Transpetrol, the remaining appointees are businessmen with strong ties to the financial backers of the ruling SMER party and former Prime Minister Vladimir Meciar from HZDS that have no previous energy-sector experience. End Comment.)

A SATISFIED GOS HAS NO IDEA WHAT COMES NEXT

16. (C) State Secretary Ziga was very pleased with the outcome of the shareholders meeting, and especially with the fact that Jahnatek and the GOS had stood up to Shmelkov and prevailed. He contended that by regaining control of part of the board the GOS was now in a much more advantageous negotiating position. Ziga believes that the Ministry of Economy can work constructively with at least two of the remaining three Yukos-appointed board members, giving them a firm four-to-one majority on the board. This together with majority control of the supervisory board will allow the GOS to begin taking strategic decisions regarding the company's future, if they desire to do so. Jahnatek had previously mentioned that the GOS would like to restart negotiations with OMV on the connection between Transpetrol and the pipeline connecting to the Schwechat refinery 40 kilometers away in Austria.

17. (C) Ziga's primary concern following the meeting was that

Yukos International does not try to overturn the decision taken by the shareholders at the meeting in an effort to undermine Rebgun's authority. Ziga feared that such a move would be used by the Slovak press to suggest that Minister Jahnatek was mishandling the Transpetrol issue. (Note: There have been several stories in the Slovak press suggesting that Minister Jahnatek and his predecessors have consistently mismanaged the buyback of the Transpetrol stake. End note.) Ziga specifically asked for our assistance in communicating this desire to Yukos International representatives, which we have done.

18. (C) The bigger question is whether and how the GOS can regain management control and achieve its objectives of further utilizing the pipeline and diversifying supply. Ziga had several theories but no hard facts to explain Shmelkov's intransigence and unwillingness to acknowledge the parameters of the agreement reached in Moscow. The first possibility is that the outlines of the general agreement with Putin never filtered down from Moscow to Shmelkov. Ziga also speculated that this could be part of a good cop/bad cop act on the part of the Russians, who ultimately know that time is on their side since the GOS loses veto control over any sale in April 2007. Ziga also conjectured that the inconsistent messages from the two sides are a result of a larger territorial battle between Gazprom and Rosneft, whereby the Kremlin's pro-Gazprom promises are being deliberately undermined by a Rosneft-supported Rebgun. Ziga seemed genuinely confused by the possibilities, and even asked if we had any information that would shed light on the situation. Nevertheless, Ziga said that the GOS is committed to following through with the plan agreed to in Moscow in early November. He explained that he did not want to pursue other alternatives, such as a direct buyback from Yukos International, "at this time," but understands that the possibility still exists if negotiations do not progress.

COMMENT

19. (C) The shareholders meeting was a success in that the GOS obtained their most basic objective - changing the Slovak Transpetrol board members - and maintained their negotiating position by refusing to give in to Rebgun's demands. Rebgun can also claim a minor victory in that the board acknowledged his right to represent Yukos Finance, although Ziga stressed that this was ultimately a question of Slovak law that was never in doubt. Figuring out what to do next is a more difficult task. Jahnatek and Ziga fear taking any actions

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that would be viewed negatively by Moscow (Note: Ziga again mentioned the problems experienced at the Lithuanian refinery and stressed that Slovakia could face a similar situation if they failed to work with Russia. End note), yet seem genuinely committed to completing a deal that will give the GOS more control over the future development of the pipeline.

We have offered to remain available to assist Minister Jahnatek as the GOS moves forward with a negotiating strategy, whether reviewing agreements being negotiated with Rebgun's representatives or pursuing alternative options. End Comment.

SILVERMAN